

# **ADD THE FOLLOWING TO TITLE 4, CALIFORNIA CODE OF REGULATIONS, DIVISION 18:**

## Chapter 7. Conditions of Operation for Gambling Establishments

Article 1. [Reserved]

Article 2. [Reserved]

Article 3. [Reserved]

## Article 4. Accounting and Financial Reporting

### **Section 12400. Definitions.**

(a) Except as otherwise provided in subdivision (b), the definitions in  
Business and Professions Code section 19805 shall govern the  
construction of this chapter.

(b) As used in this chapter:

(1) “Authorized game” means a controlled game approved by the  
Division of Gambling Control.

(2) “Dealer’s bank” means the total amount of moneys a dealer of  
the gambling establishment has on deposit with the gambling  
establishment for chip trays.

(3) "Drop" means the total amount of compensation collected from  
patrons of a gambling establishment to play in controlled  
games.

- (4) "Fiscal year" means the annual period used by a licensee for financial reporting purposes.
- (5) "Group I licensee" means a licensee with a reported gross revenue of \$10 million or more for the preceding fiscal year.
- (6) "Group II licensee" means a licensee with a reported gross revenue of \$2 million or more but less than \$10 million for the preceding fiscal year.
- (7) "Group III licensee" means a licensee with a reported gross revenue of less than \$2 million for the preceding fiscal year.
- (8) "Jackpot" means a gaming activity appended to the play of an authorized game in a gambling establishment in which a prize is awarded based on predetermined criteria.
- (9) "Jackpot administrative fee" means a fee to cover all expenses incurred by the licensee for administering a jackpot.
- (10) "Licensee" means "owner licensee" as defined in Business and Professions Code section 19805(y).
- (11) "Player's bank" means the total amount of moneys a patron of the gambling establishment has on deposit with the gambling establishment.

**Authority:** Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:** Sections 19805 and 19841, Business and Professions Code

## **Section 12401. Accounting Records.**

Each licensee shall:

- (a) Maintain accurate, complete, and legible records of all transactions pertaining to gross revenue as defined in Business and Professions Code Section 19805(p). Records must be maintained in sufficient detail to support the amount of revenue reported to the Commission in renewal applications.
- (b) Maintain accounting records identifying the following:
  - (1) Revenues, expenses, assets, liabilities, and equity for the gambling establishment.
  - (2) Records of all player's banks, dealer's banks, credit transactions, returned checks, and drop for each table (either by shift or other accounting period).
  - (3) Records required by the licensee's written system of internal controls.
  - (4) Records of all jackpot moneys contributed by the gambling establishment, jackpot moneys collected from patrons, or both, and moneys withdrawn for either jackpot administrative fees or payment to patrons.

**Authority:** Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:** Section 19841, Business and Professions Code

## **Section 12402. Chart of Accounts.**

Each licensee shall:

- (a) Maintain a uniform chart of accounts and accounting classifications in order to ensure consistency, comparability, and effective disclosure of financial information. The chart of accounts shall provide the classifications necessary to prepare a complete set of financial statements including but not limited to a statement of financial position, a statement of operations, a statement of changes in equity, a statement of cash flows, or other statements appropriate for the licensee. If the licensee elects to submit to the Division and the Commission copies of its federal income tax return as provided in Section 12403, the chart of accounts shall contain classifications necessary to prepare the licensee's federal income tax return.
- (b) Within 90 days of the effective date of these regulations, submit the chart of accounts to the Commission for approval. The Commission shall submit a copy of the chart of accounts to the Division for review

and comment. The Division shall provide the Commission with comments, if any, within 15 days of the submission to the Division. If the Division does not respond within 15 days, it shall be deemed that the Division does not object to the chart of accounts or have comments. The Commission shall then have 30 days to approve, reject, request additional information, or approve with modification(s) the chart of accounts and advise the licensee.

(c) Not use a chart of accounts other than the approved chart of accounts, but may create subaccounts for some or all accounting classifications. The licensee may alter the account numbering system, provided that the licensee maintains and provides to the Commission a cross reference to the approved chart of accounts no later than 30 calendar days following the end of the fiscal year in which the change occurs.

(d) Keep a general ledger, which documents all accounting transactions completed and posted to accounts listed in the chart of accounts referred to in subsection (a) of this section. General accounting records shall be maintained on a double entry system of accounting with recorded transactions supported by detailed subsidiary records,

including but not limited to ledgers, invoices, purchase orders, and other source documents.

**Authority:** Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:** Section 19841, Business and Professions Code

**Section 12403. Financial Statements and Reporting Requirements.**

(a) A licensee shall prepare financial statements covering all financial activities of the licensee's gambling operation for each fiscal year, in accordance with generally accepted accounting principles unless otherwise provided in this section. If the licensee (or a person or entity that has an interest, control, or common control with the licensee) owns or operates lodging, food, beverage, or any other non-gambling operation at the establishment, the financial statements must reflect the results of the gambling operation separately from those non-gambling operations.

(1) A Group I licensee shall engage an independent accountant licensed by the California Board of Accountancy to audit the licensee's annual financial statements in accordance with generally accepted auditing standards.

(2) A Group II licensee shall engage an independent accountant licensed by the California Board of Accountancy to review the licensee's annual financial statements in accordance with standards for accounting and review services or with currently applicable professional accounting standards. The Division or Commission may require the licensee, or the licensee may elect, to engage, an independent accountant licensed by the California Board of Accountancy to audit the annual financial statements in accordance with generally accepted auditing standards, if there are concerns about the licensee's operation or financial reporting, including but not limited to:

- (A) Inadequate internal control procedures;
- (B) Insufficient financial disclosure;
- (C) Material misstatement in financial reporting;
- (D) Inadequate maintenance of financial data; or
- (E) Irregularities noted during an investigation.

(3) A Group III licensee with a gross revenue of \$500,000 or more per year shall prepare financial statements including at

a minimum a statement of financial position, a statement of income or statement of operations, and disclosure in the form of notes to the financial statements. If the licensee is unable to produce the financial statements, it shall engage an independent accountant licensed by the California Board of Accountancy to perform a compilation of the licensee's annual financial statements in accordance with standards for accounting and review services or with currently applicable professional accounting standards, including full disclosure in the form of notes to the financial statements. The Division or Commission may require the licensee, or the licensee may elect, to engage an independent accountant licensed by the California Board of Accountancy to compile or review the licensee's financial statements in accordance with standards for accounting and review services, or to audit the financial statements in accordance with generally accepted auditing standards, if there are concerns about the licensee's operation or financial reporting, including but not limited to:



- (A) Inadequate internal control procedures;
- (B) Insufficient financial disclosure;
- (C) Material misstatement in financial reporting;
- (D) Inadequate maintenance of financial data; or
- (E) Irregularities noted during an investigation.

(4)(A) A Group III licensee with a gross revenue of less than \$500,000 per year shall prepare financial statements that include, at a minimum, a statement of financial position and a statement of income or statement of operations. If the licensee is unable to produce the financial statements, it shall do one of the following:

1. Engage an independent accountant licensed by the California Board of Accountancy to perform a compilation of the licensee's annual financial statements in accordance with standards for accounting and review services or with currently applicable professional accounting standards and management

may elect not to provide footnote disclosures as would otherwise be required by generally accepted accounting principles.

2. Submit to the Division and Commission no later than 120 calendar days following the end of the year covered by the federal income tax return, copies of the licensee's complete signed and duly filed federal income tax return for the tax year in lieu of the financial statements as otherwise required under this section.

(B) The Division or Commission may require the licensee, or the licensee may elect, to engage an independent accountant licensed by the California Board of Accountancy to compile or review the licensee's financial statements in accordance with standards for accounting and review services, or to audit the financial statements in accordance with generally accepted auditing standards, if there are concerns about the

licensee's operation or financial reporting, including but not limited to:

1. Inadequate internal control procedures;
2. Insufficient financial disclosure;
3. Material misstatement in financial reporting;
4. Inadequate maintenance of financial data; or
5. Irregularities noted during an investigation.

(b) Unless otherwise provided in this section, a licensee shall submit copies of the annual financial statements, with the independent auditor's or accountant's report issued to meet the requirements under this section, to the Division and Commission no later than 120 calendar days following the end of the fiscal year covered by the financial statements. If a management letter is issued, a copy of the management letter must also be submitted to the Division and Commission, including the licensee's reply to the management letter, if any.

(c) The Division or Commission may request additional information and documents from either the licensee or the licensee's

- independent accountant, regarding the annual financial statements  
or the services performed by the accountant.
- (d) The Division or Commission may require the licensee to engage an  
independent accountant licensed by the California Board of  
Accountancy to perform a fraud audit in the event that fraud or  
illegal acts are suspected.

**Authority:** Sections 19811, 19824, 19840, and 19841, Business and  
Professions Code

**Reference:** Section 19841, Business and Professions Code

#### **Section 12404. Records and Reports of Monetary Instrument** **Transactions.**

- (a) A gambling establishment, as defined in section 19805(m) of the  
Business and Professions Code, is required to file a report of each  
transaction involving currency in excess of \$10,000, in accordance  
with section 14162 (b) of the Penal Code.
- (b) A gambling establishment shall comply with sections 5313 and 5314  
of Title 31 of the United States Code and with sections 103.21,  
103.22, 103.23, 103.63, and 103.64 of Title 31 of the Code of Federal  
Regulations, and any successor provisions.
- (c) A gambling establishment, regardless of gross revenue, shall make  
and keep on file at the gambling establishment a report of each  
transaction in currency in excess of \$10,000. These reports shall be  
available for inspection at any time as requested by the Division or the

Commission. These reports shall include, but not be limited to:

- (1) Patron's name
- (2) Patron's address
- (3) Patron's identification
- (4) Amount of transaction
- (5) Type of transaction
- (6) Date of transaction.

(d) Nothing in this section shall be deemed to waive or to suspend the requirement that a gambling establishment make and keep a record and file a report of any transaction otherwise required by the Division or the Commission.

**Authority:** Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:** Section 19841, Business and Professions Code

### **Section 12405. Record Retention and Disclosure.**

All records required to be maintained by the Gambling Control Act or by these regulations shall be retained by the licensee within California for at least seven years after such records are made. Upon request of the Division or Commission, a licensee shall provide the Division or Commission with copies of such records, within the time period specified in the request. If the records are maintained in electronic form and the licensee is requested to do so, the licensee shall provide a printed copy pursuant to this section.

**Authority:**        Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:**       Section 19841, Business and Professions Code

**Section 12406. Language.**

A licensee shall make and maintain all books, accounts, and other financial records in English.

**Authority:**        Sections 19811, 19824, 19840, and 19841, Business and Professions Code

**Reference:**       Section 19841, Business and Professions Code